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INFO RUCNCLS/ALL SOUTH AND CENTRAL ASIA COLLECTIVE  
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RUEHAK/AMEMBASSY ANKARA 4507  
RUEHBJ/AMEMBASSY BEIJING 2319  
RUEHKO/AMEMBASSY TOKYO 2184  
RUEHIT/AMCONSUL ISTANBUL 2755  
RUCPDOG/DEPT OF COMMERCE WASHDC  
RHEHNSC/NSC WASHDC  
RHMFISS/CDR USCENTCOM MACDILL AFB FL  
RUEAIIA/CIA WASHDC  
RHEFDIA/DIA WASHDC  
RUEKJCS/JOINT STAFF WASHDC  
RUEKJCS/SECDEF WASHINGTON DC  
RUEHVEN/USMISSION USOSCE 3073

C O N F I D E N T I A L ASHGABAT 001493

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TAGS: [PREL](#) [EFIN](#) [ECON](#) [SOCI](#) [TX](#)  
SUBJECT: EFFECTS OF WORLDWIDE ECONOMIC CRISIS ON  
TURKMENISTAN'S ECONOMY

REF: A. ASHGABAT 1467  
[1](#)B. ASHGABAT 1394  
[1](#)C. ASHGABAT 1370

Classified By: Charge d'Affaires a.i. Sylvia Reed Curran for reasons 1.  
4 (B) and (D).

[1](#)1. (SBU) SUMMARY: Turkmenistan is unlikely to be strongly affected by the international economic crisis, because its banking sector is so cut off from the rest of the world's banking system and because the country has no debt. However, local economists predict for the first time that Turkmenistan will have to curtail spending on expensive building projects. Also, the planned currency redenomination at the end of the year will likely result in inflation. One expert from the donor community also predicts that Turkmenistan will not be able to sustain its massive spending on large construction projects due to falling gas prices and extensive consumer subsidies. The leadership will have to rethink its subsidy policy and realize that its current level of expenditures is not sustainable. END SUMMARY.

[1](#)2. (C) Several of post's frequent interlocutors, including Serdar Jepbarov of the World Bank, Neil McKain of European Bank of Reconstruction and Development, and Rizwan Khan of the National Bank of Pakistan (please protect all throughout) say that the international global crisis will have little effect on Turkmenistan because the country insulates itself with its closed banking system and lack of debt. Jepbarov noted one exception during a meeting held on October 31: the government is likely importing some basic foodstuffs such as cooking oil, and selling at low prices to provide necessary food items to citizens at affordable prices. He also mentioned that it is possible that the economic downturn could negatively affect Turkish construction companies seeking new loans from Turkish banks. McKain agreed during a conversation held on November 4 and reported septel. Many interlocutors, including the Central Bank Chairman (Ref. A), are predicting high inflation this winter due to the planned currency redenomination.

[1](#)3. (C) McKain predicted that the Government of Turkmenistan will feel squeezed, especially as gas revenues decrease due

to gas prices falling worldwide. The practice of propping up the manat against the dollar will become increasingly more expensive. A serious cost-benefit analysis of subsidies -- especially of consumer gas, but also electricity and foodstuffs -- may prompt the government to rethink its policy on subsidies. However, if Turkmenistan has planned well for changes in gas prices -- both increases and decreases -- the recent decrease will not have an impact on policy. (NOTE: Turkmenistan recently announced plans to use budget surpluses -- from higher gas prices that produced more profit than was originally budgeted for -- to finance a wealth fund (Ref. B).

END NOTE.) McKain believes that in light of recent announcements of new high-figure, high-profile projects (Ref. C), Turkmenistan will find that it must make some spending choices, but predicts that leadership will ignore problems until it can no longer avoid the fact that the pace of spending is unsustainable -- perhaps sometime over the next year.

¶4. (SBU) COMMENT: Although Turkmenistan will not feel the effects of the international economic crisis, its profligate spending habits may force it to make some spending choices. Mega construction projects have been popular, because they have been a source of rent seeking. Eventually the leadership will understand that, at Turkmenistan's pace, this type of spending can't go on forever. END COMMENT.  
CURRAN